ANNUAL BUDGET OF

RICHMOND

MUNICIPALITY

2014/2015 TO 2016/2017

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

Copies of this document can be viewed:

- **In the foyers of all municipal buildings**
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- **www.richmond.gov.za**

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Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	General Recognised Accounting Practice
HR	Human Resources
IDP	Integrated Development Strategy
IT	Information Technology
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MM	Municipal Manager
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
PBO	Public Benefit Organisations
PMS	Performance Management System
PPE	Property Plant and Equipment
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayor's Report

Mayors Budget Speech 2014/2015

Vision

"Access to quality social infrastructural development and sustainable economic opportunities"

Mission

To improve the livelihood of its citizens, through innovative mechanisms and dedicated resources, undertakes to deliver services in a sustainable approach.

It pleases me, in terms of Section 24(1) of the MFMA, Act 56 of 2003, to present the 2014/2015 Budget Report.

As has become the norm in terms of existing regulations, councillors and officials have undertaken the rigorous process of public participation with regards to the IDP review and ensured that prioritisation has taken place, involving the Ward Committees and the community.

We have found the interaction with the community very interesting and invigorating as members have become familiar with the processes involved. We are faced with the challenge of using scarce resources to maintain and lift our ability to continue to ensure service delivery remains a priority to uplift the living conditions of our people.

We are confident that our Budget 2014/2015 will address, to a large extent, the concerns of our people as it goes a long way to try and implement the projects as identified in our IDP and the National Development Plan.

In spite of the austerity measures that have become the norm throughout the world and especially in SA, we have attempted to cater for the needs of the people and improving our service delivery.

In all 7 wards, we attempted to hold meetings to review our IDP and align it to the Budget. It was interesting to find that majority of our community have learnt the processes which we adopt and contributed well to the process.

However, we must accept that it is almost impossible to address all the needs of the people and that implementation of projects will continue to be slow in some areas as we strive to secure sufficient funds to succeed.

We've had to move some projects to the outer 3 years for prioritisation. We wish to convey our sincere thanks and appreciation to our councillors, Ward Committee members and the community for their wonderful response for suggestions and input.

Some still remain critical as they feel that they are being neglected and that they should receive more in their areas. People must understand that finance and the low income of the Municipality is a serious factor that restricts us. Our own funds only account for around **24%**

of our Budget. We rely on National and Provincial government to provide almost **76%** of our budget.

We will need to improve our income and ensure that people pay for services so that we can provide more in terms of infrastructure and renewal and maintenance of equipment.
We have also adopted a conservative approach when projecting expected revenues and cash receipts.

Presently, we are faced with a very serious situation whereby almost 47% of our Budget (Municipal Income) is paid for personnel salaries and related costs. The norm should be 35%. In our 2014/2015 Budget we have tried to reduce the percentage to around 38%. However, we require a further reduction.

It is absolutely difficult to stay within the norms as we require more personnel to ensure better service delivery.

In terms of job creation and the implementation of the EPWP programme, we have made good strides and hope to ensure that our programme of so-operative is successful and continue to provide more employment in our community.

The Driver's Testing Centre has been approved and funding has been secured. We hope that this will boost our income when the project is complete.

The expenditure on the Capital Budget has been decreased to **R 21,499,050** with **R 16,618,350** funded by MIG and R **R2,250,000** funded by Sports and Recreation.

It has been quite a juggling act to peg the rates increase to a minimum and hopefully we will be able to increase our rates base to include presently unrated properties which are valued at over R50,000.00.

We will remain committee to service delivery excellence. At the same time, we urge residents to be patient as we explore ways to speed up delivery for the benefit of all.

WE KNOW THAT TOGETHER WE CAN DO IT!

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CLLR ANDREW RAGAVALOO
HONOURABLE MAYOR

1.2 Council Resolutions

On **29 May 2014** the Council of Richmond Municipality met in the Council Chamber to consider the draft annual budget of the municipality for the financial year 2014/15. The Council approved and adopted the following resolutions:

1. The Council of Richmond Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1. The annual budget of the municipality for the financial year 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:

> 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2;
> 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3;
> 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4; and
> 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5.

1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

> 1.2.1. Budgeted Financial Position as contained in Table A6;
> 1.2.2. Budgeted Cash Flows as contained in Table A7;
> 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8;
> 1.2.4. Asset management as contained in Table A9; and
> 1.2.5. Basic service delivery measurement as contained in Table A10.

2. The Council of Richmond Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014:

> 2.1. the tariffs for property rates – as set out in Annexure A1,
> 2.2 the tariffs for solid waste services – as set out in Annexure A3

3. The Council of Richmond Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014 the tariffs for other services, as set out in Annexure A1 to A5 respectively.

4. To give proper effect to the municipality's annual budget, the Council of Richmond Municipality approves:

> 4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

5. That in terms of section 24(2)©(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for

each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 are approved.

6. That in terms of section 24(2)©(iv) of the Municipal Finance Management Act, 56 of 2003, the amendments to the integrated development plan as set out in Budget Chapter 17 are approved.

7. That in terms of section 24(2)©(v) of the Municipal Finance Management Act, 56 of 2003, the budget related policies, including any amendments are approved for the budget year 2014/15.

8. That in terms of sections 22(2)(b) of the Municipal Finance Management Act read together with section 23(3) of the Municipal Budget and Reporting Regulations, council approves an application to National Treasury for the roll-over of any unspent balances (if applicable) of the 2014/2015 Financial Management Grant, Municipal Systems Improvement Grant and Municipal Infrastructure Grant (MIG).

(NB: All unspent 2013/2014 funds are committed)

9. Council notes the Service Delivery and Budget Implementation Plan (SDBIP) with the budget for subsequent approval by the mayor.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and „nice to have" items.

The Municipality will embark on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers by implementing the debt collection and credit control policy as well as the implementation of the approved revenue enhancement strategy.

National Treasury's MFMA Circular No. 51,54, 55,57,58,59,66,67, 70 and 72 were used to guide the compilation of the 2014/15 MTREF.

The main challenges experienced during the compilation of the 2014/15 MTREF can be summarised as follows:

• The ongoing difficulties in the national and local economy;

• Aging and poorly maintained roads and other infrastructure assets;

• The need to reprioritise projects and expenditure within the existing resource envelope given the available sources of funding;

• Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies which makes it difficult to maintain the salaries budget within the acceptable norm as a percentage of the total operating budget; and

• Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2014/15 MTREF process.

The following budget principles and guidelines directly informed the compilation of the 2014/15 MTREF:

• The 2013/14 Adjustments Budget priorities and targets;

• Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

• Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

• There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

• Local Government budget and Financial reforms : Regulation of a "Standard Chart of Accounts' (SCOA) for local government;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2014/15 MTREF

R thousand	Adjustment Budget 2013/14	Budget Year 2014/15	Budget Year+1 2015/16	Budget Year+2 2016/17
Total Operating Revenue	91 750 692	81 322 130	99 902 845	103 488 189
Total Operating Expenditure	69 004 745	66 257 089	76 713 037	81 133 094
Surplus / (Deficit) for the year	22 745 947	15 065 041	23 189 808	22 355 095
Total Capital Expenditure	34 641 385	21 499 050	17 244 400	17 846 700

Total operating revenue has decreased by 11 per cent or R10,4 million for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget. For the two outer years, operational revenue will increase by 9 and 13 per cent respectively, equating to a total revenue growth of R11.7 million over the MTREF when compared to the 2013/14 financial year.

Total operating expenditure for the 2014/15 financial year has been appropriated at R66.2 million and translates into a budgeted surplus of R15 million. When compared to the 2013/14 Adjustments Budget, operational expenditure has decreased by 4 per cent in the 2014/15 budget and increased by 11 and 18 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years steadily increases to R23.1 million and decreases to R22.3 million respectively. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R 21.4 million for 2014/15 is 38 per cent less when compared to the 2013/14 Adjustment Budget. The reduction is due to various projects being finalised in the previous financial year. The capital programme decreases to R 17.2 million in the 2015/16 financial year and further decreases to R17.8 million in the 2016/2017 financial year. A substantial portion of the capital budget will be funded from government grants. The balance will be funded from internally generated funds.

1.4 Operating Revenue Framework

The municipality's revenue strategy is built around the following key components;

- National Treasury's guidelines and macroeconomic policy;
- Efficient revenue management which aims to aims to ensure a 80% percent annual collection rate for rates and other service charges;
- The municipality's Property Rates Policy approved in terms of the Municipal Property rates Act, 2004 (Act 6 of 2004)(MPRA);
- Increase ability to extend new services and recovers costs;
- The municipality's Indigent Policy and rendering of Free Basic Services;
- The Tariff Policy of the municipality; and
- The establishment of a Drivers Testing Licence Centre.

Management have further adopted a conservative approach when projecting revenue and cash receipts. Council has also carefully considered the affordability of tariff increases, especially as it relates to domestic consumers whilst considering the level of service versus the associated cost. Particular attention was paid to managing revenue effectively and evaluating all spending decisions.

Table 2: The following table is a summary of the 2014/15 MTREF (classified by main revenue source):

Description	Adjustment Budget 2013/14	Budget Year 2014/15	Budget Year+1 2015/16	Budget Year+2 2016/17
Property rates	9 200 000	9 752 000	10 142 080	10 547 763
Property rates- penalties and collection charges	480 000	450 000	450 000	450 000
Service charges- refuse revenue	418 820	400 000	416 000	432 640
Rental of facilities and equipment	6 379 003	1 114 270	1 158 840	1 205 194
Interest earned - external investments	1 850 000	1 800 000	1 800 000	1 800 000
Interest earned - outstanding debtors	126 180	120 000	120 000	120 000
Fines	52 500	252 750	252 750	252 750
Licences and permits	346 100	640 500	665 300	691 092
Income from agency services	470 000	517 000	537 680	559 187
Government Grants and Subsidies	72 009 477	65 786 000	83 851 000	86 900 000
Other income	418 612	489 610	509 194	529 562
TOTAL OPERATING REVENUE(excluding capital transfers and contributions)	91 750 692	81 322 130	99 902 845	103 488 189

<u>Table 3</u>: Percentage growth in revenue by main revenue source

Description	Adjusted 2013/2014 Budget	%	Budget Year 2014/2015	%
<u>REVNUE BY SOURCE</u>				
Property Rates	9 200 000,00	0,15	9 752 000,00	0,16
Property rates - Interest	480 000,00	0,01	450 000,00	0,01
Service Charges - refuse removal	418 820,00	0,01	400 000,00	0,01
Rental of facilities and equipment	6 379 003,00	0,11	1 114 270,00	0,02
Interest earned - external investments	1 850 000,00	0,03	1 800 000,00	0,03
Interest earned - outstanding debtors	126 180,00	0,00	120 000,00	0,00
Fines	52 500,00	0,00	252 750,00	0,00
Licences and Permits	346 100,00	0,01	640 500,00	0,01
Income from Agency Services	470 000,00	0,01	517 000,00	0,01
Government Grants and Subsidies	40 870 592,00	0,67	46 917 650,00	0,75
Other Income	418 612,00	0,01	489 610,00	0,01
Total Revenue (excluding capital transfers and contributions)	60 611 807,00	**1,00**	**62 453 780,00**	**1,00**
Total revenue from rates and service charges	9 200 000,00	15,18	9 752 000,00	15,72

In line with the formats prescribed by the Municipal Budget and Reporting regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus / deficit.

Revenue generated from rates and service charges forms 16% of the revenue basket of the municipality. Operating grants and transfers totals R 46.9 million.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality. National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. The municipality has increased residential rates by 5%, all other categories for rates by 6%, domestic refuse charges by 6% and all other service charges by 6%.
Commercial refuse charges have been increased in line with the guidelines to ensure that the refuse tariff is cost effective.

1.4.1 Property Rates

In accordance with Section 32 (1) of the Municipal Property rates Act No. 6 of 2004, the municipality had compiled a new valuation roll effective 1 July 2012. One supplementary has been approved and advertised in the 2013/2014 financial year. This would therefore be the third year of implementation of the current valuation roll.

Property rates contribute towards covering the costs of the provision of general services. National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the MPRA, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R 15 000 of the market value of a residential property is excluded from the rateable value (Section 17h of the MPRA). In addition to this rebate, a further R 35 000 reduction on the market value of a residential property will be granted in terms of the municipality's property rates policy;
- Rebates will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners a maximum rebate of 20 per cent (calculated on a sliding scale) will be granted to the owners of rateable property as long as the total gross income of the applicant and/or his/her spouse, if any, does not exceed R30, 000.00. In this regard the following stipulations are relevant:
  - The rateable property concerned must be occupied only by the applicant and his/her spouse, if any.
- The municipality may grant a 100 per cent grant-in-aid on the assessment rates of rateable properties of certain classes such as registered welfare organisations provided they are registered and comply with the requirements as referred to in the Property rates Policy.

Table 4: Comparison of the proposed rates to be levied for the 2014/2015 financial year

Category	Current Tariff (1 July 2013)	Proposed Tariff (from 1 July 2014)	% Increase	Rate Ratio
	c	C		
RESIDENTIAL	0.0062759	0.0065897	5%	1
BUSINESS,COMMERCIAL AND INDUSTRIAL	0.0125508	0.0133038	6%	2
AGRICULTURAL	0.0015974	0.0016932	6%	0.25
STATE OWNED	0.0125508	0.0133038	6%	2
PUBLIC SERVICE INFRASTRUCTURE	0.0015974	0.0016932	6%	0.25
PUBLIC BENEFIT ORGANISATION	0.0015974	0.0016932	6%	0.25
OTHER	0.0036445	0.0038631	6%	0.52

1.4.2 Refuse Removal

Currently waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long term. The municipality has therefore reviewed the tariffs in respect of commercial users and attempted to apply an increase that would address this issue. Further to the above the tariff charge will be raised per unit and not per property.

A 6% increase in the waste removal tariff for domestic and commercial users is proposed from 1 July 2014. Currently indigent residential consumers are subsided in full for refuse removal.

Although the municipality has affected a 6% increase on the refuse tariff, the income has decreased by 4.8 per cent from 2013/2014 to 2014/2015. This is largely due to the municipality undertaking data cleansing thus aligning accounts raised to actual refuse collection.

Table 5: Comparison between current refuse removal fees and increases

	CURRENT TARIFFS 2013/14	PROPOSED TARIFFS 2014/15	% INCREASE
Refuse removal residential once a week	33,71	35,73	6%
Commercial twice a week	254,80	270,09	6%
Commercial five times a week	795,00	842,70	6%

1.4.3 Other income

Other income has been increased per the request of department heads and has been aligned to the 2013/2014 forecast.

1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2014/15 budget and MTREF is informed by the following;

- The asset management plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash backed reserves to fund any deficit;
- Funding of the budget over the medium term as informed by Section 18 and 19 of the MFMA.

Table 6: The following table is a high level summary of the 2014/15 budget (classified per main type of operating expenditure);

Description	Adjusted 2013/2014 Budget	%	Budget Year 2014/2015	%
Expenditure by Type				
Employee related costs	27 115 226,00	0,39	31 026 857,00	0,47
Remuneration of Councillors	3 943 489,00	0,06	4 214 061,00	0,06
Collection costs	40 000,00	0,00	40 000,00	0,00
Debt Impairment	550 000,00	0,01	500 000,00	0,01
Depreciation	5 632 278,00	0,08	6 148 705,00	0,09
Repairs and maintenance	3 102 400,00	0,04	3 206 917,00	0,05
Interest Expense	80 300,00	0,00	104 130,00	0,00
Contracted services	4 774 859,00	0,07	5 727 990,00	0,09
Grants and subsidies paid	10 000,00	0,00	-	-
General expenses	23 676 190,00	0,34	15 208 429,00	0,23
Contributions to provisions	80 000,00	0,00	80 000,00	0,00
Total Expenditure	**69 004 742,00**	**1,00**	**66 257 089,00**	**1,00**

1.5.1 Employee Related costs

The budgeted allocation for employee related costs for the 2014/15 financial year totals R 31 million, which equals 47 per cent of the total operating expenditure. Salary increases have been factored into this budget at a percentage increase of 6.79 per cent for the 2014/15 financial year. An annual increase of 6.4 percent has been included for the 2015/2016

financial year and 6.4 percent for the 2016/2017 financial year. The budget has also been drawn up taking into account the budgeting for applicable annual notch increases.
As part of the municipality's reprioritization and cash management strategy only posts that are critical and strategically important have been included in the 2014/2015 budget. These include the following:-

- 1 x Creditors Clerk
- 1 x Asset Clerk (to be funded from FMG)
- 1 x Secretary : SM
- 1 x LED Officer
- 2 x Examiners (Drivers Testing Centre)
- 1 x Mechanic
- 1 x Caretaker (to be funded by Sports and recreation Grant)

In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions. The essential services departments will be introducing the "shift system" to curb overtime and ensure compliance with relevant legislation.

The budgeted salaries for Senior Managers have increased when compared to the 2013/2014 financial year. This is mainly due to the following position being vacant for 10months during the 2013/2014 financial year:-

- Strategic Manager: Technical Services – (position has been filled as at May 2014)

All Senior Management positions have been budgeted for a full year in 2014/2015. Further to the above and analysing the trend and historical performance it is evident that performance bonuses had not been paid out to any senior manages for the past 3 years. However the municipality has implemented a Performance system and is in the process of finalising outstanding performance reports. Management therefore felt it prudent planning to budget for performance bonuses in the 2014/2015 financial year.

The municipality understands that sustainable job creation remains a national priority and in drafting the 2014/2015 budget and MTREFs, the municipality has explored opportunities to promote labour intensive approaches to delivering services, and more particularly to participate fully in the Expanded Public Works Programme.

1.5.2 Remuneration of Councillors

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). A 7 per cent increase has been factored into the budget for the 2014/15 financial year.

1.5.3 Depreciation

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R6,1 million for the 2014/15 financial year and equates to 9 per cent of the total operating expenditure.

1.5.4 Finance Charges

The finance charges budgeted under Table A4 relates to bank charges and finance charges on the lease of the Switchboard. The lease expired in April 2014 and we are in the process of advertising for a new service provider. Further, the new contract would be including additional equipment and two switchboards due to proposed development of the Drivers Testing Ground.

1.5.5 Debt impairment

The municipality has budgeted for a collection rate of 80 per cent. An additional provision of R500 000 has been made towards debt impairment. This provision would be reviewed during the adjustment budget process.

1.5.6 Contracted Services

In the 2014/15 financial year, contracted services totals R5,7 million and has escalated by 19 per cent. This is due in the main to annual increases by service providers as well as the introduction of operational costs arising from previous year's infrastructure projects. Further details relating to contracted services can be seen in SA1.

1.5.7 Other Expenditure

Other expenditure comprises various line items relating to the daily operations of the municipality. This group of expenditure has been identified as an area in which cost savings and efficiencies can be achieved. General expenditure totals R15 million in the 2014/15 financial year and has decreased by 36 per cent.

Other expenditure constitutes 23 per cent of the total Operating Budget. A detailed breakdown can be seen in the Consolidated budget Summary Document.

1.5.8 Repairs and Maintenance

In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. During the compilation of the 2014/2015 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure. Repairs and Maintenance has increased by 3 per cent in the 2014/2015 financial year.

The level of budgeted Repairs and Maintenance expenditure, expressed as a percentage of the asset values is 2.8 per cent. This is below the norm of 8 per cent as required by the MFMA Circular no 55. The municipality however budgets as per the maintenance plans and is confident that the budget would adequately secure the ongoing health of the municipalities infrastructure and assets.

1.5.9 Operating Budget Surplus/Deficit

The municipality has budgeted for an Operating deficit of R3,8 million in 2014/2015 and a surplus of R5,95 million and R4,5 million in 2015/2016 and 2016/2017 respectively. MFMA circular No. 72 requires all municipalities to adopt a surplus position on the Statement of financial performance with the 2014/2015 MTREF. The deficit is however lower than the non-cash expenditure items reflected on the budget (eg: Depreciation). The deficit wil be funded from accumulated funds.

1.5.10 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services households are required to register in terms of the Municipality Indigent Policy. The municipality has in the 2014/2015 year undertaken to register all indigents and thereby create an updated indigent register. The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Capital expenditure

Table 7: **The following table provides a breakdown of budgeted capital expenditure per vote**:

Vote	Adjustment Budget 2013/14	Budget Year 2014/15	Budget Year+1 2015/16	Budget Year+2 2016/17
Executive and Council	73 000	0		
Finance and Administration	100 000	52 000		
Planning and Development	72 000	214 700		
Community & Social Services	396 000	15 000		
Public Safety	9 496 000	94 000		
Sport & Recreation	2 387 000	2 300 000		
Waste Management	1 411 000	0		
Road Transport	20 706 385	18 823 350	17 244 400	17 846 700
Total Capital Budget	34 641 385	21 499 050	17 244 400	17 846 700

For 2014/15 an amount of R20,8 million has been appropriated for the development of infrastructure which represents 97 per cent of the total capital budget. Roads receives the highest allocation of R18,823 million.

Management acknowledges that capital programmes needs a balanced funding structure addressing not only backlogs in services but also investment in new infrastructure as well as the renewing of current infrastructure.

Total new assets represents 22 per cent or R4,79 million of the total capital budget while asset renewal equates to 77.7 per cent or R 16.7 million. Further detail relating to asset classes and proposed capital expenditure is contained in table A9 (Asset Management). In addition to the MBRR table A9, MBRR table SA34a, b and c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class.
The accepted norm for renewal of assets is 40 per cent. The municipality however has the challenge of maintaining existing roads that were not properly constructed on initialisation. Thus the expenditure of 77.7 per cent on the renewal of assets to largely eradicate the backlogs.

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Some of the salient projects to be undertaken over the medium-term includes, amongst others:-

- Furniture and Equipment for the New Drivers Testing Centre , R 75,000;
- CBD Roads Rehabilitation, R2,000,000.00;
- Chilley Street Rehabilitation , R 7,000,000.00;
- Magoda Sidewalks, R 3,500,000.00;
- Inhlazuka Road, R 4,000,000.00;
- Siyathuthuka/ Smozomeni Road, R 2,118,350.00;and
- Sporting facility, R 2,250,000.00

1.7 Cash Flow

As per table A8, all statutory requirements (PAYE, Pension, Medical Aid etc) are met at month end.

The following provisions have been accounted for:-

- Post-retirement medical aid; and
- Long service provision

1.8 Annual Budget Tables - Parent Municipality

The following pages present the main budget as required:

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Mayor, Members of the Executive Committee, Municipal Manager and senior officials of the municipality. The primary aim of the Budget Steering Committee is to ensure:-

-that the process followed to compile the budget complies with legislation and good budget practices;

-that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;

-that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and

-that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2012) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required budget time schedule on 31 August 2013.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

This is the fifth review of the IDP as adopted by Council in 2006/07. It started in August 2013 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2014/15 MTREF.

The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

The IDP has been taken into a business and financial planning process leading up to the 2014/15 MTREF, based on the approved 2013/14 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.
With the compilation of the 2014/15 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the

mid-year performance against the 2013/14 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2014/15 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2014/15 MTREF:

• Policy priorities and strategic objectives

• Asset maintenance

• Economic climate and trends (i.e inflation, household debt, migration patterns)

• Performance trends

• The approved 2013/14 adjustments budget and performance against the SDBIP

• Cash Flow Management Strategy

• Debtor payment levels

• The need for tariff increases versus the ability of the community to pay for services;

• Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury' MFMA Circulars 66 ,67, 70 and 72 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

Once the draft budget was approved by council the following community consultation process were undertaken:-

- The draft 2014/15 MTREF was published on the municipality's website and a Notice placed in the Natal Witness and Ilanga;
- Hard copies were made available at all municipal offices and libraries;
- Notices were placed on municipal notice boards and various libraries;
- Ward committees were utilised to facilitate the community consultation process during April 2014 and included 7 public briefing sessions in each ward. The applicable dates and venues were published in the Natal Witness and Ilanga (Two locally distributed newspapers). Notices were also placed at strategic points informing the community of the meetings and loud hailing was undertaken on the days prior to the days of the respective meetings.
  Attendance at these session was up on previous years and can be attributed to the additional initiatives that were launched during the consultation process.
  Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant, considered as part of the 2014/2015 MTREF.

Action plans have been formulated by management to address all queries and input and can be found in the IDP document 2014/2015.

- All documents in the appropriate format (electronic and printed) were provided to National Treasury and Provincial Treasury in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.
  Comments and assistance was received from Provincial Treasury and where relevant considered as part of the finalisation of the 2014/2015 MTREF.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process. Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

• Green Paper on National Strategic Planning of 2009;
• Government Programme of Action;
• Development Facilitation Act of 1995;
• Provincial Growth and Development Strategy (GGDS);
• National and Provincial spatial development perspectives;
• Relevant sector plans such as transportation, legislation and policy;
• National Key Performance Indicators (NKPIs);
• Accelerated and Shared Growth Initiative (ASGISA);
• National 2014 Vision;

• National Spatial Development Perspective (NSDP) and
• The National Priority Outcomes.

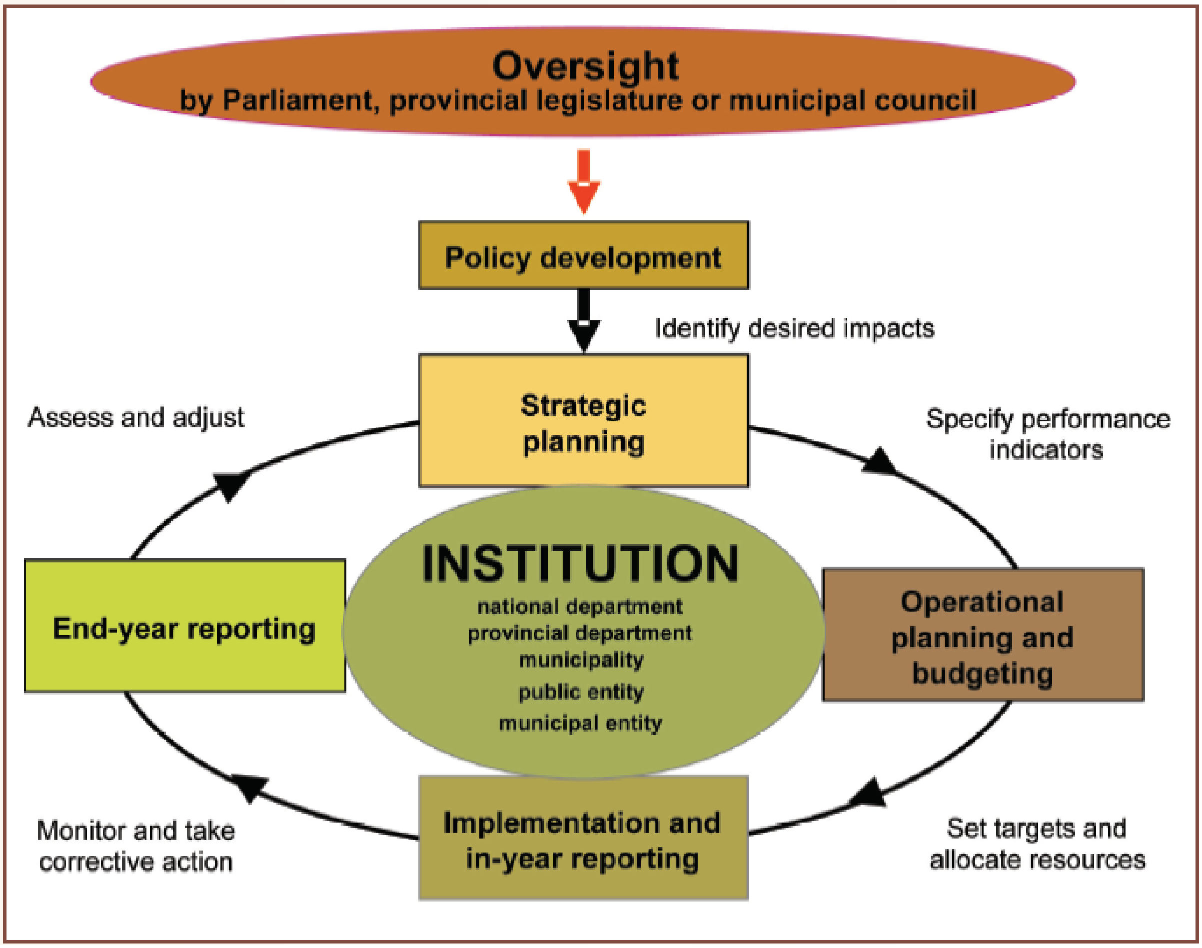
The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

The planning, budgeting and reporting cycle can be graphically illustrated as follows:



Planning, budgeting and reporting cycle

2.3.1 Performance indicators and benchmarks

2.3.1.1 Liquidity

• Current ratio is a measure of the current assets divided by the current liabilities and as a benchmark the municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. Going forward it will be necessary to maintain these levels.

• The liquidity ratio is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations.

2.3.1.2 Revenue Management

• As part of the financial sustainability strategy, the debt collection and credit control policy has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days.

2.3.1.3 Creditors Management

• The municipality has managed to ensure that creditors are settled within the legislated 30 days of invoice. The municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favourable impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to benefit the municipality in the form of more competitive pricing of tenders, as suppliers compete for the municipality's business.

2.3.2 Free Basic Services: basic social services package for indigent households

In terms of the municipality's Indigent and Free Basic Services Policy registered households are entitled to 50kwh of electricity and free waste removal equivalent to once a week as well as a rebate on their property rates.

2.4 Overview of budget related-policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

All policies as listed hereunder, are available on the municipality's website.

NO.	POLICY	DEPT.	AVAILABILITY	ADOPTION DATE	
2.4.1	Debt Collection and Credit Control Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.2	Property Rates Act Policy	Budget & Treasury Office	**Y**		29/05/2014
2.4.3	Revenue enhancement Policy	Budget & Treasury Office	**Y**	**amended**	14/12/2010
2.4.4	Petty Cash Policy	Budget & Treasury Office	**Y**		29/04/2011
2.4.5	Borrowing Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.6	Long Term Financial Plan Policy	Budget & Treasury Office	**Y**		29/04/2011
2.4.7	Supply Chain Management policy	Budget & Treasury Office	**Y**		29/04/2011
2.4.8	Asset management policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.9	Indigent policy and Free Basic Services Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.10	Cash Management and Investment Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.11	Budget Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.12	Infrastructure and Capital Investment policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.13	Funds and Reserves Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.14	Tariff Policy(including Property Rates Tariff, Refuse Removal / Solid Waste Tariff)	Budget & Treasury Office	**Y**		14/12/2010
2.4.15	Virement Policy	Budget & Treasury Office	**Y**		14/12/2010
2.4.16	Budget Implementation and Management Policy	Budget & Treasury Office			

2.5 Overview of budget assumptions

Owing to the economic slowdown, there are reduced payment levels by consumers. This is being addressed by the implementation of the debt collection and credit control policy.

The following factors have been taken into consideration in the compilation of the 2014/15 MTREF

- National Government macro economic targets';
- The general inflationary outlook;
- The increase in the cost of remuneration;
- The increase in the cost of services by service providers;
- Annual increases in contracted services.

2.6 Overview of budget funding

- As per attached table SA 10

2.6.1 Medium-term outlook: operating revenue

- As per attached table SA 25

2.6.2 Medium term outlook: capital revenue

- As per attached table SA 25

2.6.3 Cash Flow Management

- As per attached table/s SA 25 to SA 30

2.6.4 Cash backed reserves/accumulated surplus reconciliation

- As per table A8

2.6.5 Funding Compliance Measurement

- As per attached table SA 10

2.7 Expenditure on grants and reconciliations of unspent funds

- As per Attached table SA 19

2.8 Councillor and employee benefits

- As per Attached table SA 22

2.9 Monthly targets for revenue, expenditure and cash flow

- As per Attached table/s SA 25 – SA 30

2.10 Annual budgets and SDBIPs – internal departments

- As per Attached Annexure C

2.11 Contracts having future budgetary implications

In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years - 36 months).

2.12 Capital expenditure details

- As per Attached table SA 36

2.13 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) is undertaken on a monthly basis.

2. Internship programme

The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Budget and Treasury Office. Since the introduction of the Internship programme the municipality has successfully employed and trained 15 interns through this programme.

3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2014/15 MTREF in April 2014 directly aligned and informed by the 2014/15 MTREF.

6. Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

The MFMA training module is available in electronic format.

8. Policies

All financial policies are reviewed and adopted annually as part of the budget process.

2.14 Other supporting documents

- As per Attached tables

2.15 Municipal manager's quality certificate

I Mr E S Sithole, Municipal manager of Richmond Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Mr E S Sithole

Municipal manager of **RICHMOND MUNICIPALITY (KZ227)**

Signature ____

Date _________27/05/2014______________________________